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THE RELATIONS BETWEEN RENT AND INTEREST—DISCUSSION

THOMAS N. CARVER : I do not find so many stages in the development of the rent concept as the paper before us attempts to trace. It seems to me, on the other hand, that the development of that concept has been comparatively simple and logical. But in trying to trace this development, we should first distinguish sharply between the technical concept and the popular concept, each of which has had a development of its own.

The technical or scientific concept started with the idea of rent as the income derived from the ownership of land. Then it was discovered that this income had certain characteristics, aside from the question of its source, which made it unlike other incomes, the most important of these characteristics being that the rent of a given piece of land was the difference between the price of the product and the cost of producing it on that particular piece of land. Rent was, hence, a kind of surplus, or unearned income, in the sense that it came to the landlord without his having done anything to produce it. Then the concept of rent was broadened in one direction, so as to include any other form or surplus, or unearned income, and narrowed in another so as to exclude that part of the income from land which might be said to be earned by the person receiving it, namely, the income from improvements. In other words, rent came to be regarded as a surplus income, rather than the income from land, though the income derived from the ownership of land was still regarded as the most important form of surplus income. It is this change in the concept which alone makes such terms as producer's

rent, quasi rent, consumer's rent, composite rent, etc., intelligible. This, I believe, is the only essential change which the technical rent concept has undergone, and I believe, moreover, that the change was a logical one, and that this later form of the concept can be successfully defended, though there may be good reasons for giving it some other name than rent.

The idea that rent does not enter into cost of production, or that it is not a factor in price, derives whatever validity it has from the fact that rent is a surplus or unearned income. Unfortunately this idea has been supported by the inconclusive, not to say ludicrous, argument that if rent were remitted it would not affect price. It is, of course, equally true to say that if wages were remitted, prices would remain the same. It all amounts to saying that if those who receive one share in the product of any industry should decide not to take it, those who receive some other share would get it, but it hardly seems worth while to spend time in demolishing such an argument.

There is, however, a sense in which rent does not enter into cost or into price, which can not be affirmed of either wages or interest. This makes a valid distinction between the rent of land and the income derived from the ownership of produced goods. If any one can explain this distinction away, he will have done something which no one has yet succeeded in doing, though many have tried. The three following propositions can be laid down respecting wages. 1. In order that there may be production, there must be labor. 2. In order that there may be labor, men must receive wages as a personal income; otherwise there will be no labor and no production. 3. Therefore, wages as personal income are necessary for production.

Three similar propositions may be made respecting interest. 1. In order that there may be efficient production, there must be waiting. 2. In order that there may be waiting, men must receive interest as a personal income to induce them to wait ; otherwise there will be no waiting, or very little of it, and consequently, very inefficient production. 3. Interest, as a personal income, is necessary to secure efficient production.

Now, obviously, no propositions resembling the second and third in either of the above series can be made respecting rent. Since it is not necessary that any one should receive rent as a personal income, in order to secure efficient production, one is warranted in saying that rent does not enter into cost in the same sense that wages and interest do. These shares are necessary parts of the cost of production in the sense that no one could be induced to take part in production unless he were allowed a personal income of one kind or the other, whereas production would be quite as efficient as it now is even if no one were allowed rent as a personal income.

It may be true, and probably is, that from the standpoint of functional distribution pure and simple, there is no good reason for distinguishing between the income derived from the ownership of land and that derived from the ownership of capital. But a theory of functional distribution which does not in some way throw light on the more important question of personal distribution is about as useless a piece of speculation as ever occupied the attention of a mediaeval schoolman. Instead of holding, as the paper before us seems to imply, that economics is concerned wholly with functional distribution, I should hold that economics does not care a fig for functional distribution except as it helps us to

understand personal distribution. The question of personal distribution is a question of the real world, whereas the question of functional distribution is a question of Platonic ideas. From the standpoint of personal distribution there are abundant reasons for distinguishing between the income from land and the income from produced goods. Therefore, as it seems to me, the development of the technical or scientific concept of rent has been a logical one. That is to say, economists have been justified in distinguishing as they have, between incomes from these two sources. It may, however, still be open to question whether the terms, rent and interest, ought to have been used to express this distinction.

On the popular side the concept of rent has undergone a different development. Though doubtless originally applied to the income from the ownership of land, since that was the most important kind of property let for a lump sum, it was soon expanded so as to include the income from the ownership of any kind of property let in a similar way, *i.e.*, where the property is regarded merely as a material thing, rather than as a quantity of wealth.

The name interest, on the other hand, was doubtless originally applied to the income derived from the ownership of money, because that was the most important kind of property loaned for a per cent of the principal. This is possible only when the income and the principal are alike, or where they can be reduced to the same quantitative expression. But this term was gradually extended so as to cover the income from any kind of property when that property was expressed as a sum of value in terms of money, and when the income could

for that reason be expressed as a percentage of that sum, *i.e.*, as a percentage of its source.

The result of the extension of the rent concept in one direction and of the interest concept in the other, is that in popular usage the two concepts have come to overlap, so far as the sources of the two kinds of income are concerned. That is to say, the same income has come to be called either rent or interest, according as the source of the income is measured and expressed as a physical quantity or as a quantity of value.

Since this is the way in which the business world has come to use the terms rent and interest, it is somewhat unfortunate that the technical use of these terms has taken a different line of development. From this standpoint it may have been wise for Professors Clark and Fetter to have returned to the popular usage. I think, however, that it would have been wiser and less confusing if they had recognized that they were distinctly breaking away from scientific or technical usage and adopting the popular concept, instead of trying to show that there was no basis for the scientific or technical distinction.

If I have succeeded in showing that there is still an important distinction between rent on the one hand and the income from other agents of production on the other, and that this distinction is essentially what the older economic writers declared it to be, and if it is also made clear that there is a logical basis for the popular distinction between rent and interest, then this whole discussion is concerned entirely with a question in the use of terms. The question is, should the terms rent and interest have been used to express the distinction with which the economic writers have been most concerned, or should they have invented new terms to express that

distinction, leaving the terms rent and interest to express the popular distinction. It is not to be inferred that a question in terminology is unimportant, but it is well to recognize that it *is* a question in terminology, and not a question as to the difference in the real nature of the two forms of income.

JACOB H. HOLLANDER : Professor Fetter's paper is a notable example of acute analytical power, squandered in the service of what Mr. Bagehot has termed "conjectural history." Hardly to a less degree than in the previous studies with which he has enriched recent economic discussion, Professor Fetter asserts the past relativity and the present unfitness of the classical concepts of rent and interest. But, now as then, he is not completely exorcised of the vigorous devil with which economic theorists, it appears, have been so long obsessed. His paper undertakes not only (a) to demonstrate the historical relativity and present uselessness of the traditional theories of rent and interest, but also (b) to associate with the old terms novel concepts, unfamiliar he admits, but in harmony, it is claimed with modern industrial conditions.

Upon his critics, accordingly, devolves the task of reviewing three intimately associated but clearly distinguishable queries suggested by his discussion.

1. Are the traditional concepts of rent and interest peculiarly relative to the time, place and condition of their original formulation ?

2. Is there no warrant for the retention of distinct laws of interest and rent in any sense approximating their historic significance ?

3. Are the new meanings which Professor Fetter would attach to these terms legitimate and desirable ?

To the first proposition conditional assent may be given. It has become a commonplace in the history of economic thought that the so-called classical formulae of rent and interest reflect in origin and in content the conditions of economic England of the late eighteenth and early nineteenth centuries. It is perhaps true that the beginning of the theoretical differentiation of rent and interest in English political economy may be traced back to Hume's expression to Adam Smith: "I cannot think that the rent of farms makes any part of the price of produce, but that the price is determined altogether by the quantity and the demand." Certainly James Anderson, writing a few years later, was sensible of one distinctive feature of land as a production good. But at least another generation was to pass before the stirring course of politico-economic affairs in England forced attention to visible contrasts in income derivable from land and from capital respectively. The kernel of the Bullion Controversy was whether the fund-holder should benefit and the agriculturist suffer by a return to the older standard of value. The point at issue in the corn-law dispute was whether the economic policy of England should be shaped in the immediate interest of the landowner or of the capitalist-entrepreneur. This antagonism of interests found theoretical expression in the practically simultaneous but independently conceived studies of Ricardo, West and Malthus—wherein the concepts of rent and interest were sharply distinguished and each connected with an independent, and, indeed, antithetical law of determination. The differential principle of rent promptly entered into and shaped the dominant theory of economic distribution. The system which in 1817 in the preface to his "*Principles of Political Economy and Taxation*" Ricardo modestly her-

alded as "many important truths, which can only be discovered after the subject of rent is thoroughly understood"—had become a decade later in Malthus' phrase "the new political economy"—supported by James Hill, Torrens, Tooke and, added McCulloch, perhaps its most enthusiastic disciple,—“by all the best economists in the country.”

The corner-stone of the new structure was the law of diminishing returns. From this law proceeded as easy corollaries, the well known dicta of the classical theory: “rent is not a component part of the price of commodities,” “profits depend on high or low wages,” “rents rise as profits fall.”

Passing now from the first to the second proposition suggested by Professor Fetter's paper, it will be readily admitted that the mere circumstance of historic origin is, of itself, no argument for the present worthlessness of the traditional distinction. The one rigid test to which the older concept must be subjected, with a view to determining its further right to be, is—does land as a factor in modern industrial organization retain, or even possess characteristics distinctive enough to differentiate land from capital as a production good?

Professor Fetter is clearly of the opinion that such a differentiation is not warranted, and that if rent and interest are to be retained as independent terms in economic terminology, it must be in very different senses from that to which we have long been accustomed. His argument and his negative conclusions, although not without original elements of interest and importance, may for the present purpose and in this connection, be identified with the reasoning made familiar to us by the more detailed studies of Professor Clark, Dr. MacFarlane, Mr. Hobson, Dr. Johnson and others:—"The principle

of rent," Professor Clark has written, "may be applied to the concrete products of all artificial capital-goods, and even to those of workmen. In the same inaccurate sense in which it may be said that the rent of land is not an element in price, the rent of tools, etc., and those of men themselves, or interest and wages, are not elements in price. We can repeat, word for word, the argument concerning the rent of land, making it apply to the rent of men or to that of artificial instruments, and it will be as true in the one case as in the other."

To the present writer it appears that the identity here so explicitly stated is superficial rather than sound, and that the occasion for radical departure from the traditional distinction between rent and interest, in any other sense than that which Professor Marshall has made familiar, is plausible rather than real. The fallacy underlying Professor Clark's analogy, and in so far, Professor Fetter's argument, arises, like so many other troublesome misconceptions in recent theoretical discussion, from neglect of the *composite* character of the law of diminishing returns, that is to say, from failure to recognize the identical and parallel co-ordination of the differential quality of land in extensive cultivation with the principle of increasing costs in intensive cultivation.

If to a definite amount of land be applied successive amounts of labor and capital, the increments resulting from such application will be relatively diminishing; or viewed as a question of value, and other things being equal,—the cost of each increment will be relatively increasing. The agriculturist is obliged to content himself with this shrinking measure, because the only alternative open to him in extensive cultivation is recourse to less productive land. As a matter of fact, the

relative advantage of either method is so slight that he does both. In rigid theory, every additional product is derived, in part, from extensive, in part from intensive cultivation. The two margins advance *pari passu*, and even the marginal increment of product is composite, proceeding in part from no-rent land, in part from no-rent uses of land.

Now, if a definite fund of capital were to be utilized in conjunction with successive quanta of land and labor, or if a given amount of labor were to be supplied with successive amounts of capital and land, it is perfectly obvious that results identical with the foregoing would follow. But such a condition never occurs, except abnormally or temporarily, and the conception upon which it is based seems unreal, profitless and at variance with the theory as with the facts of industrial organization. No entrepreneur will acquiesce in the condition of diminishing returns to labor and to capital, as he does with respect to land. He will not for a single moment continue using additional land and labor with a given amount of capital, or additional capital and land with a given amount of labor, after the point of increasing, or at the most, of constant returns has been passed. In such cases he will satisfy the demand for a larger product by applying the additional land-labor in the one case, and capital-land in the other—to *new* capital or labor, respectively, and not to the old. This new capital or labor will be available—and this is the all important fact—in identical quality with that capital or labor in use, and not as in the case of land, only in inferior efficiency.

Narrowing our further discussion to the contrast between capital and land, and speaking only of normal, long-time production, the crux of the whole matter

seems to be that, viewed as potential production goods, that is as factors necessary for the satisfaction of increased demand, land is available only in diminishing efficiency both in intensive and in extensive cultivation, while capital is available in diminishing efficiency with respect to intensive use, but in identical, homogeneous quality with respect to extensive use.

It is not possible within the few minutes here available to pursue further the line of thought which it is hoped in another connection to develop more fully. Perhaps enough has been said however to suggest that, in the judgment of the present writer, the primary assumption upon which the classical distinction between rent and interest rests, is still operative, and that independent categories demand recognition. Our scientific fathers builded wiser than they knew, wiser, perhaps, than modern critics are always inclined to admit.

Finally, the student of economic theory in its historical development can have but little sympathy with Professor Fetter's disposition to use the old terms, rent and interest, as labels for new, even though entirely legitimate concepts. If the old differentiation has ceased in fact, let us mark its demise by interment of the accompanying theoretical terms, and not dislodge new vials of wrath by the adoption of terminology, both at variance with practical usage and with traditional scientific employment.

CHARLES W. MACFARLANE: I shall confine myself to Professor Fetter's contention: that any income may be converted into interest by capitalizing it at the prevailing rate of discount or interest. In this connection Dr. Fetter writes on page 196: "The capital value of a good is the sum of its prospective rents and uses, discounted

at a rate that reflects the prevailing premium on the present. Capitalization, thus viewed, is logically a later stage of the problem of value than is rent; and interest first appears in connection with capitalization."

In formulating this thesis Dr. Fetter has clearly followed the lead of Professor Clark. On page 337 of "The distribution of wealth" the latter declares that:—"rent then is nothing more than interest regarded from another point of view, it is an aggregate of lump sums each of which is the net earnings of some instrument. It is identical in amount with interest and it becomes interest the moment we reduce it to a fraction of the value of the instruments that earn it."

Professor Clark here holds that the income from land may be converted into interest by capitalizing it at the prevailing rate while Dr. Fetter holds that not only the income from land but that the total income from any "good" may be converted into interest by this very simple arithmetic device. That we can by such a device convert any income into the form of interest, or express it as a fraction of the total value of the agent producing this income will hardly be questioned, but this, it seems to me, is quite a different thing from converting such income into interest in fact as well as in form.

Let us return to Dr. Fetter's formulation of this doctrine. The capital value of a good is the sum of its prospective rents and uses discounted at a rate that reflects the prevailing premium on the present, etc.

If he will change this so that it will read,—the capitalized value of a good—I fancy that few of us would take exception to the statement. In a word the capitalized value say of a railroad would undoubtedly include any monopoly advantage it might enjoy through its franchise, but can we as economists say that the capital

value of the road includes any such monopoly surplus. If "capital value" and "capitalized value" are equivalent terms then as we have said the difficulty disappears, but it is hardly fair to Dr. Fetter to assume that he would coin a new compound term when we have an equally apt term in familiar use. What then does he mean by the term "capital value" or in brief what concept of capital can he here have in mind. On page 182 he recognises the great importance of Professor Clark's distinction between "capital goods" and the "social fund of capital." It is therefore fair to ask which of these concepts he has in mind when he talks of the "capital value of a good." That the "good" he here has in mind is Professor Clark's concept of "capital goods" need hardly be urged. If so, then there would seem to be strong ground for thinking that his "capital value" of the good corresponds to Professor Clark's "social fund of capital." If this interpretation is correct then Dr. Fetter's thesis resolves itself into the following:—the share of the social fund of capital embodied in any capital good may be determined by capitalizing its total earnings at the prevailing rate of interest. If this is what Dr. Fetter means, and I submit we are left to guess at his meaning, then Professor Clark's distinction between the two concepts of capital may as well be pigeon-holed for they are here hopelessly confounded with one another. Professor Clark has himself written that all monopoly influences where in the "capital goods," the social fund of capital having neither part or lot in any monopoly surplus. If this is true then why confound confusion and ignore the fundamental economic distinction between monopoly and non-monopoly conditions by calling the monopoly earnings of our hypothetical railroad interest and this on the sole ground that by a

mere arithmetic device we have converted these earnings into the form of interest or expressed them as a fraction of the value of the railroad or "capital good" in question.

Dr. Fetter tells us that the capital value of a good may be obtained by capitalizing its earnings at the prevailing rate of interest. This sounds simple enough but one feels constrained to ask :—What fixes this prevailing rate? Had Dr. Fetter seriously addressed himself to this problem he would have found ample ground for thinking that interest is a non-monopoly surplus. If put to it Dr. Fetter would probably have told us that the prevailing rate is fixed by the marginal productivity of the social fund of capital. He might even have told us that with every increase in its supply this capital would be forced to find employment in less and less productive or profitable industries. But if this is true, then manifestly it is in order to inquire what limits the supply of capital, since this has an important bearing upon its marginal productivity and so upon the prevailing rate of interest. Without undue elaboration it may be answered that this depends on the abstinence or disutility endured not by a Rothschild but by the marginal saver. In brief the prevailing rate of interest is fixed at the point where the marginal productivity or utility of capital is equaled to the abstinence or disutility of the marginal saver. If this is sound then the determination of prevailing rate of interest is a problem in normal or non-monopoly value. From this it follows that the only part of the earnings of any capital good that can be charged up as interest in any sense in which we as economists are justified in using the term, is that part which would be secured under the conditions of free competition. This too should be credited to the social

fund of capital while all surplus above this must be credited to the capital good.

Let us bring this matter to the test of a concrete instance and see if we can re-word the matter in any intelligible way. The cost of production, or if you like the cost of reproduction of certain machines is \$100,000. An entrepreneur purchases them at this price borrowing from a capitalist the \$100,000 with which the purchase is made. The machines yield a net income of \$12,500. In the piping times of an industrial boom when prices are rising and the voice of the promoter is heard in the land the first entrepreneur may be able, on the strength of the above showing, to persuade some one to give \$250,000 for these machines, since that would be their capitalized value at the prevailing rate of five per cent, and it may be that the second entrepreneur borrows the \$250,000 with which to complete the transaction. We have here a very interesting complication for the question is very apt to suggest itself: which of these amounts, the \$100,000 or the \$250,000, is the share of the social fund of capital embodied in these capital goods or machines? As what is much the same question, which of the incomes \$5,000 or \$12,500 is to be credited as the earnings of the social fund of capital? When tried by the test of the amount paid to the capitalist for the use of his money the answer does not seem to be at all clear for while the earning power of the machines has remained the same the amount paid to the capitalist has changed from \$5,000 to \$12,500. Again when tried by the test of the amount that figures in the cost accounts of the entrepreneurs the result is equally unsatisfactory. For while in the first instance the amount entered on the cost side of the entrepreneur's ledger will be \$5,000, the second entrepreneur

would certainly charge up \$12,500 as interest on the cost side of his ledger. How then are we to decide. It seems to me this can only be done by return to Professor Clark's fundamental contention "that all monopoly influences inhere in the concrete machines or 'capital goods.'" In a word the mobile homogeneous or social fund of capital cannot be credited with any share on these monopoly surpluses. If then the cost of reproducing these machines is \$100,000, and the prevailing rate is five per cent, then the capital value of these machines or the share of the social fund of capital embodied in them is represented by \$100,000, and the earnings of this social fund or the interest *per se* is \$5,000. For is it not clear that the \$7,500 earned by these machines in excess of five per cent on the cost of reproducing them is due to some monopoly influence that inheres in the concrete machines or capital goods?

Answer may be made that after all this is only a question of definitions. I may define interest as the earnings of "the social fund of capital." Some one else may define it as the total earnings of "capital goods" capitalized at the prevailing rate, and so long as the some one else is consistent with himself in his use of the term, his position is as tenable as mine. Is this quite true? Interest has long found defenders on the ground that some abstinence or disutility is endured. While this truth has not always been clearly apprehended, it has nevertheless been persistent in our literature, and in the minds of most of us still serves to distinguish interest from those monopoly surpluses for which no economic justification is sought. Now, unless we are prepared to show the utter fallaciousness of this belief, we are not at liberty so to define interest as to

include under it the most offensive of monopoly surpluses.

There is yet another way of exposing the confusion of thought in the paper before us. Professor Clark has contented himself with showing that the rent of land may be converted into interest by this process of capitalization. We have just been following Dr. Fetter in his attempt to show that the income from any capital good, including land, may be so converted. But if this is true then why may not any incomes be converted into interest by the same simple device. Dr. Fetter is at least willing to follow his reasoning to its legitimate conclusion, for he writes on page 196 as follows: As the market expression of the all-pervading premium of present over future, interest may appear in connection with any gratifications whether they be yielded by natural or produced by material or *human*, by durable or perishable agents. Clearly, then, not only rent and profit, but net wages as well may be converted into interest by the simple process of capitalizing them at the prevailing rate. And so it comes about not only that the old distinctions of land, labor, entrepreneur and capital are found to be useless, but with them disappears all distinctions between rent, interest, profits, and wages since all may be converted into interest by a simple arithmetical process. It seems to me we have only to state Dr. Fetter's thesis in this bold way to realize that there must be some serious break in his reasoning.

Personally I cannot but feel that those who are working along this line have been betrayed into a *cul-de-sac*, and that all hope for further progress will depend upon a return to Professor Clark's fundamental distinction between capital goods and the social fund of capital. In

a word, any attempt to secure simplicity of statement by ignoring fundamental economic distinctions can only result, as in Dr. Fetter's paper, in elucidating the whole matter into a hopeless obscurity.

LINDLEY M. KEASBEY: The distinction between rent and interest, as I understand it, rests upon an antecedent distinction between two kinds of income-bearing goods, land and capital. But these terms are misleading; land, in last analysis, is mere area, and capital may be made to include all else, even "the original and indestructible powers of the soil," whatever they may be. The distinction, however, being fundamental, I would suggest we employ new terms. Suppose instead of land we say "generative goods" meaning thereby those goods which possess in themselves inherent powers of increase, or procreative power, if you will. Goods which do not possess such power we might then designate as "productive goods" simply, and understand by this what political economists understood by capital in the old sense.

Under the category of generative goods would come animals and plants, which, when brought into the proper connection with the so-called original and indestructible powers of the soil, yield an increase of animals and plants. Historically,—if a little elliptically speaking,—generative goods would then include domesticated animals and cultivated fields. Now the first characteristic of these generative goods is that they do not diminish in quantity during the productive process, that on the contrary, they put forth a physical increase. Furthermore,—and this is economically of the utmost importance,—since domesticated animals and cultivated fields are normally monopoly goods, and not freely reproduci-

ble by labor alone, their physical increase represents a corresponding increase in value. In this case physical increase and value increase coincide. The patriarchs of old were wont to reckon their wealth in the number of their flocks and herds, the landlords their wealth in the extent of their estates and the produce thereof. Of generative goods it may accordingly be said: when put through the productive process they increase in quantity and in value.

Of productive goods this is not the case. When productively employed they augment value as do the generative goods, but this increase of value is necessarily accompanied by a diminution in quantity. Of productive goods it may therefore be asserted: when put through the productive process they decrease in quantity and increase in value.

It is upon this distinction between generative and productive goods that the distinction between rent and interest really rests. Rent was the term originally employed to designate the income derived from generative goods. It was, as Professor Fetter says, the income of "a special social class," the patriarchs and landlords; it was the income derived from "natural agents," *i. e.*, livestock and land; it was the income from "wealth measured physically," since the physical increase in this case correspond to the increase in value. Later on, with the institution of exchange, the term interest came to be employed to designate the income derived from capital, or, in other words, from productive goods. It was the income of another, a new, "social class," made up of merchants and manufacturers; it was the income derived from "artificial agents," *i. e.*, productive goods, "produced material means of production;" it was the income measured economically in units of value, or in terms of money, simply because there was no other way to meas-

ure it; physically speaking there had been a decrease not an increase.

Hence, historically speaking, rent represents the income from generative goods, interest the income from productive goods. Logically, however, the distinction is not so sharp. True, the income from productive goods can not be expressed in terms of rent for there is no physical increase to measure in physical units representing value. On the other hand, the income from generative goods can perfectly well, nay perhaps better, or at least more conveniently, be expressed in terms of interest than in terms of rent. These generative goods put forth a physical and a value increase and such increase can be measured either in physical units (which then represent value units) or in value units alone, *i. e.*, in terms of money. Since the money expression is coming to be wide spread and is essentially more accurate and more convenient, we note the passing of the old rent concept, as Professor Fetter has said, and the general prevalence of the interest concept. Withal, the old distinction between land, *i. e.*, generative goods; and capital, *i. e.*, productive goods, remains and should be taken account of in all questions of rent and interest.

W. G. LANGWORTHY TAYLOR: With respect to this particular part of the field of distribution, Professor Fetter proposes a triple classification: (1) valuation of goods; (2) rent as payment in kind; (3) interest as exchange of present for future goods at a money valuation. These stages are put forward as chronological and logical. As to (1) it seems to me to belong to a distinct category, that of values. This category does not chronologically precede the others, but runs parallel with them; it itself should be broken up into a series of stages, of which the lowest would be the cost of production period,

the second would be the period of equilibrium of utility with utility in a market, the third would be dominated by "price-determining" monopoly, until, fourthly, with the final disappearance of the element of cost, we may in the dim future come to a standstill with values determined by marginal utility *simpliciter*. The statement that subjective valuation belongs at the bottom of the ladder is the very reverse of the truth.

As to stages (2) and (3), Professor Fetter has been much more happy. Accepting the Clarkian theory that rent and interest are *allotropic* forms in distribution, he suggests that rent belongs to an earlier epoch, while interest characterizes the advanced period and the money (or set-off) economy. This distinction is interesting to me because it allows a "paralleling of this part of distribution with the genetic theory of valuation which I suggested above: rent belongs to an earlier, more materialistic stage of civilization than interest, undoubtedly; while the suggestion as to money is calculated to throw light on the function of money as a generalizer of values and a socializer of economic life. Moreover, such generalization involves a decidedly higher intellectual and moral development of industrial man.

The old definitions of rent are criticised by Professor Fetter because they are partial, depend on social distinctions, and are confined to natural agents; because they deny the principle of cost of production to rent, distinguish rent from interest in a superficial sense, assume the indestructibility of a perpetual bearer, and follow a false theoretical lead which made a narrow technical term out of a broad usage of language.

The discussion arising from these attributes is certainly avoided by the new distinction between rent as the return in kind and interest as the return in money. But

it gives rise to newer and graver questions. I am inclined to admit the Clarkian allotropism; but that is posited on the supposition of a perfectly static society. As to a dynamic society Professor Clark has made no statement about rent, but we may assume that the allotropism would there be destroyed. It would there appear that land, as the scarcer factor, has a monopoly value not due to the calculations of the land-owner, and that while he is receiving a monopoly tribute which, of course, is a part of the market supply, the price is regulated by the produce on the marginal land continually brought into cultivation, so that rent is "price-determined," and that if he sells his land and buys industrials he will have to discount the expected fall of the one in terms of the other.

Evidently the proposed distinction does not take the dynamic movement into account; but tacitly assumes that what is true of the static society holds for the dynamic also.

Professor Fetter condemns the philosophy of Professor Marshall which seeks to trace a continuity between the concrete phenomena of rent and interest. As to this criticism it may be said in the first place that it is itself open to criticism, in that it admits validity in reasoning by contrasts alone, and denies it to reasoning by continuities. However, it is only by the latter method that abstract contrasts can be given life and be practically applied. The philosophy of Marshall has succeeded in this quest beyond parallel. The contention is, however, that there is no such distinction—that land is not monopolized, that it is perfectly mobile, that it involves expenses in every way like those in industry, etc. A very fair case of this sort may be made out so long as you retain the static point of view, but no

further; but Professor Fetter does not claim to confine himself to the static point of view, nor could he if he were to make a definition generally acceptable.

In the second place it may be charged that Professor Fetter, in his classifications (2) and (3) has really stated the very contrasts which Professor Marshall has logically united. The case of land rent remains typical of rent as a specific payment in produce, while Marshall analyzes the concrete conditions under which, step by step, such specific payments become socialized and generalized into a return *per cent* on a standard of value. Of course, Marshall's analysis does not set to itself the Clarkian task of an isolation of the static elements; it includes the dynamic elements in a practical way. And yet Marshall's purpose of reconciling the logical positions that Fetter himself has taken are severely condemned by the latter.

It is to be noted that the use of the term "rent" proposed is novel notwithstanding that it once existed. The Ricardian philosophy has driven it out of the Anglo-Saxon business world except in connection with land and its improvements. Does the scientific public desire a counter revolution?

I quite agree, however, as to the usefulness of the distinction defended by Professor Fetter when confined to its original hypothesis of the static state.

RICHARD T. ELY: I cannot help having the feeling that the Henry George agitation has carried some of our economists too far in their opposition to the Ricardian theory, just as the free silver agitation has pushed some of our economists to an extreme in their efforts to combat it. Economists have wished to take the bottom out from under the advocates of cheap money, and in

consequence in some cases have gone too far in their opposition to the quantity theory of money. It seems to me that even if they have done so unconsciously, some of our economists have allowed themselves to be forced to take an extreme position in opposition to the Ricardian theory of rent in order to remove the scientific foundation upon which Henry George endeavored to construct his theories. Naturally I cannot go into this matter to any length in the few minutes allowed me, but I want to attempt to call attention to a few points.

It is said that business usage makes no distinction between capital and land. Here we have to do with a question of fact. My own opinion is that business usage does make a marked distinction. At any rate I am sure that thoughtful business men do so, and that evidence of this can be found in the real estate columns of our daily press and in the business organs of real estate interest.

I have the feeling also that we have been pushed too far by the critics of the Ricardian phrase, "original indestructible powers of the soil," and that we underestimate the nature-factor in land. Perhaps it would be better to say "inseparable conditions of land." Abundant illustration is afforded of rent due to nature, and in cases which I have in mind, what nature offers may be regarded as original and indestructible. Take for example the land on which peaches are produced in the vicinity of Palisade, some ten miles east of Grand Junction, Col. Some of this land could not be bought now for a thousand dollars an acre. As I understand it, there is an abundance of land to the westward which is the same property so far as soil is concerned, but it has not the situation. If I am correctly informed this land upon which peaches are raised and which is of so high

a value is so situated that there are breezes which keep off the frost at critical periods. We have here an original indestructable gift of nature. Man cannot produce these conditions. Another illustration is afforded by the land on which grapes are produced in the western part of New York state. Lake Erie retards vegetation in the spring by absorbing heat until the danger of frost is passed, and in the fall by giving off heat, keeps away the frost until the grapes ripen. Here we have also an original indestructible gift of nature. The blue grass region of Kentucky would afford an illustration. The valley of the Mississippi, when contrasted with the rocky soil of New Hampshire, likewise affords an illustration of original indestructible properties of land.

The region in Colorado about Greeley affords a good illustration of gifts of nature which result in rent in the Ricardian sense. These are original and indestructible and strictly limited. They have value because they exist in smaller quantities than man desires. In the West we can also see the fact that an abundance of land is in use which pays no rent and which has been brought into use without any remuneration. The public ranges afford an illustration.

Now if there were time I should endeavor to show that the cases which I have cited are not to be regarded as exceptions to a rule, but they are fair illustrations of general principles.

Just one more point. I think Clark gives us a good suggestion concerning land when he speaks about capital as perpetual. Under the proper economic management the value of capital is perpetual. We can say the same thing in regard to the soil, even taking soil in the narrow sense of the term. Under modern agriculture, the fertility of the soil is maintained perpetually, while

at the same time it yields a return. I offer again as an illustration the country about Greeley, Col., where large and profitable crops of alfalfa are raised, which at the same time improve the fertility of the soil and prepare it for other and still more valuable crops.

JAMES EDWARD LEROSIGNOL: I am glad that Professor Ely has called attention to the value of lands in the arid West, where problems of rent and interest are even more complicated than they are in the humid East. Desert land that cannot be irrigated is comparatively worthless. Land that is capable of economical irrigation has a considerable value before being improved. Land under a good ditch is worth from \$25 to \$1000 an acre.

In most cases there is a large surplus of value over and above the cost of the ditch and other necessary improvements. Frequently, however, the cost of improvement exceeds the value of the improved land, and the so-called rent is only a very low interest on a permanent investment of capital. Sometimes the cost of operating the ditch, or the cost of putting the water upon the land absorbs all the profits of farming, leaving only the barest wages to the farmer or compelling him to abandon the land.

Is it not correct to say that at least two kinds of returns are here involved—interest and profits on the capital invested in the irrigation ditch, and a surplus return of a different character, due to the natural scarcity of land and especially of water, and following the law of rent?

The annual use value of commodities permanently limited in quantity, such as old paintings, rare coins and land, is surely different from the annual use value

of commodities like houses, machinery or clothing, which are more or less freely reproducible. In the latter case we have equalization of profits and the law of interest—in the former a permanent differential following the law of rent.

So long as some goods are reproducible and others not, there must be a difference between interest and rent.

FRANKLIN H. GIDDINGS: There are certain important implications of that analysis of rent and interest put forth by Professor Clark and held in view throughout this discussion, which makes them practically identical quantities; rent being the sum total of differential gains accruing to concrete capital goods, and interest being the same income computed as a percentage on the total value of the same capital goods, conceived as a fund of "pure capital."

In the first place it is necessary to distinguish between an identity of quantities and an identity of categories. Identifying the sum total of rent with the sum total of interest does not identify rent and interest. The conception that we have to deal with is essentially mathematical, and can best be illustrated by the statistical distinction between the "mode" and the "average" of a column of figures. Two columns of wage rates may foot up to the same total. The average rate in each series may be the same, but one total may be made up of a few very high rates and many very low rates, while the other is made up of many medium rates—a difference of "mode." Rent is essentially a mode of income. Interest is essentially an average.

In the second place, identifying the sum total of rent with the sum total of interest does not involve an affir-

mation that rent enters into price if interest does. On the contrary, if interest enters into price rent does not, unless the sum total of cost enters into price twice.

In the third place, identifying the sum total of rent with the sum total of interest does compel us to identify capitalization with the social fund of capital, and we can escape the force of Dr. MacFarlane's criticism only by identifying the sum total of wealth with the sum total of capital. This identification I am convinced we must make if Professor Clark's conception is to be accepted and to stand. We must include in the sum total of capital goods every iota of unconsumed material wealth, taking the ground that whatever can be capitalized is a concrete basis of pure capital. Absolutely every thing that the individual or the community owns and can utilize can be listed as an asset at some figure, however small, and as such, it contributes to the total fund of value, conceivable as pure capital. Either the whole conception which thus makes capital goods and pure capital opposite sides of the same shield must be abandoned, or the distinction between producer's goods and consumer's goods must be discarded.

WINTHROP M. DANIELS: I am inclined to accept without reservation all that the "arch-heretic," Dr. Fetter, has said, but will not attempt to do more than reply to certain of the issues raised by Dr. Carver. The latter broke a lance for the old axiom that rent enters into cost in a different way from wages and interest. Dr. Carver had contended that while wages and interest as personal incomes were necessary to evoke the labor and abstinence necessary for production, rent as a personal income was not necessary to call land into the service of production. This attempt at differentiation,

failed in two points : first, not all the wages now paid, nor all that is now paid in interest, is necessary to evoke the amount of labor and abstinence now undergone. The totality of wage and interest payments is in excess of the amount required as a stimulus to the present amount of labor exerted and abstinence endured. In the second place, without the expectation of rent (in the sense of a return for the use of so-called natural agents) the amount of land that would be furnished by the owners for productive purposes would be less than it now is. Without the expectation of a return called rent, most individuals would be unwilling to undergo the abstinence required to transform land area into economic land, the agent of production. Virtually wages, interest and rent (so-called) are alike in that the expectation of each is necessary to secure the marginal supplies of each respectively. I thoroughly agree with the theoretic identification of land and capital as proposed by Dr. Fetter.

FRANK A. FETTER : All taking part in this discussion have shown their belief that economic theorizing is worth while, and that theories both good and bad are affected by, and in turn affect, practical life. In accordance with this view, the leading proposition of the opening paper that the conventional concepts of rent and interest are illogical and inconsistent, has a corollary that these concepts are unfitted to explain the problems of the business world, and that another conception must be adopted.

To the frank and friendly criticisms offered in this debate, I shall reply as brevity permits. Those taking part in the discussion may be arranged in a continuity classification (the validity of which I fully admit) from those who for regard of traditional theories would over-

look a lack of logic, to those who for regard of logic are willing to adopt new theories. The conservatives are far from harmonious in their beliefs, and by mutual cancellation they have left for consideration only a residuum of argument.¹

The prime contention of the first part of my opening paper is not, as it was assumed by Professor Hollander to be, "the historical relativity of the traditional theories."² That thought is a minor one, and the brief historical paragraphs were given merely as "side lights" on the origin of the errors.³ It would be an easy task to defend and strengthen these historical references had any one of the speakers sought to controvert them at any specific point. Even the critic who first waived the whole opening paper aside as "conjectural history" gave to the historical suggestions "conditional assent."⁴

Prejudgment has, I fear, caused more than one of my critics to shut his eyes to the repeatedly avowed purpose of the paper, which was to show that the traditional concepts are internally inconsistent, illogical, containing several conflicting thoughts, and that they were thus defective even in the days of Ricardo. In recognizing that some practical issues in Ricardo's time served to obscure this lack of logic, the paper had, to be sure, a suggestion of historical relativity. It is admitted by all the speakers that of recent years the emphasis on the various thoughts of these concepts has been shifted; and some would believe that this shift has cured the infirmities in logic. On the contrary I main-

¹ Brevity compels me to confine these closing comments to the criticisms adverse to the opening paper.

² See above, p. 204.

³ See above, pp. 183-4.

⁴ See Hollander, p. 204, 205.

tain that it has aggravated them. Thus, changes in industry and changes of thought have combined to enhance the difficulties *inherent from the first* in the older concepts.

Professor Carver has dissented generally from the negative part of the opening paper, regretting the attempt "to show that there is no basis for the scientific distinction."¹ He would explain the confusion by declaring that there are two clearly distinguishable concepts, the popular and the scientific, which at times contradict and overlap each other. As none of my critics attempted a specific disproof of this portion of my opening argument I may limit myself here to a re-assertion that the so-called "scientific concept" is *inconsistent in itself*, that no writer has employed it without shifting thought and untenable conclusions. It is for the reader to determine whether I have not shown that the so-called "practical concept" has been confused with the so-called "scientific concept" in economists' minds. If this is true it follows that some of the supposed contrasts between rent and interest are but the reflection of the unconscious shifting in the subjective attitude of the thinker.

A test is thus afforded for any revision of the concepts; no valid contrast can be drawn between the concepts of rent and interest where there is an unconscious change from one to another of the three conceptions that have been noted. A shifting eclecticism becomes impossible when these different thoughts are clearly recognized. My critics, however, avoid a clear-cut decision, and uphold conceptions uniting two or more discordant elements. It is not easy, therefore, to say on just what

¹ See Carver, p. 203.

ground they take their stand. They defend in the main the attempt to distinguish between land and artificial agents objectively, but their reasons are largely drawn from supposed differences in the relation of the income to price, and yet according to their own statements this distinction is not co-extensive with that of the two objective classes of agents. Moreover, their arguments involve a use of the third distinction,¹ which they are endeavoring to overthrow.

This confusion may be seen in Professor Hollander's contention that the critics of the traditional distinction overlook "the composite character of the law of diminishing returns." He says that the characteristic that suffices to "differentiate land from capital as a productive good" is its diminishing efficiency in extensive cultivation; "while capital is available in identical homogeneous quality with respect to extensive use." Observe the reasoning by which this conclusion is reached.² The assumption, however, that any particular enterpriser, in enlarging his business, is forced to take up poorer land, surely is not warranted. Except in the rare case that the particular enterpriser had been using the one best piece of land, he can hire more land as good as he has, or even better, if he cares to pay the prevailing rental, just as he can hire more and better machines. The thought evidently shifts to the old dynamic and social conception of the growing scarcity of land with increasing population, and from the particular entrepreneur to the personified total population.

There is another shift, for while the physical conception of land is retained, and it is thought of in terms of

¹ See above, p. 193.

² See above, passage beginning "No entrepreneur" and ending "only in inferior efficiency," p. 208.

acres, the particular produced goods called capital, are thought of in terms of a value unit. This creates the illusion that the differential return is peculiar to land, and that the value units of capital are of homogeneous quality. The varying yields of land are looked at in a way that makes them necessarily appear as differentials, and the varying yields of other agents are by reason of the mode of their capital expression, converted from differential incomes into homogeneous capitalized sums. What is this capital but the incomes (or I should call them rents) of productive goods, capitalized at the prevailing rate of interest? A given rent thus corresponds to one unit of capital, a double rent to two units of homogeneous capital, and a free good, or rentless unit, to no capital at all. This capitalization of rents is possible in the case of land also, the price of land being the sum of the anticipated future rents, discounted to their present worth; and the enterpriser can purchase x dollars' worth of land as easily as x dollars' worth of machines, and the units are just as homogeneous in one case as in the other. In fact, both kinds of agents frequently are bought as value units. The word "amount" in the contrast between an amount of land and an amount of capital begs the whole question, for in one case it means units measured by area and differing in yield, in the other it means the homogeneous value expression of differing units. It is impossible to escape these errors if the analysis insisted upon in the opening paper is overlooked.

Professor Carver has maintained¹ that there are abundant reasons for distinguishing between the income from land and the income from produced goods, in that in-

¹ See pp. 200-201.

terest as a personal income is a necessity to insure waiting, and thus is a condition of efficient production. This is retaining the traditional conception of the distinction between the objective classes of goods, while repudiating the traditional reasoning, and while broadening the conception of rent to any surplus or unearned income. The idea of surplus is generally very vague, but under the application of any suggested surplus-test the concept of rent would extend to numberless incomes and fractions of incomes not derived from land, and would fail to include numberless incomes and fractions of incomes that are derived from land in any usable sense of that term. Replies that, to my mind, are conclusive on the principle here involved were given in the course of the discussion.¹ It follows from this surplus conception that any portion of the income derived from produced goods that would have been saved if the rate of interest had been lower, is rent, not interest; and that any natural element of fertility in land that would have been used up except for the factor of waiting, would thereafter yield interest, not rent. Adopting for the moment the terminology of the critic, his challenge may be accepted; the proposition that "men must receive interest as a personal income to induce them [*i.e.*, the marginal abstainers] to wait" and that "interest as a personal income is necessary to secure efficient production," not only can be but must be paralleled by like propositions concerning rent. Men must receive land rent as a personal income to induce them to bring the marginal land into cultivation and to maintain undiminished the supply of productive

¹ See Daniels, p. 226. Dr. Whitaker's remarks to the same effect unfortunately were not obtainable for this report.

qualities. Thus land rent is necessary to secure efficient production continuously from land. The margin in question is not a hair line, it is in practice a zone of wide extent. This fact is the basis of private property in land as broadly and surely as the other fact is the justification of interest. We are not concerned here with the ethical question, but in each of the two cases a social policy is based on the need of maintaining the marginal units of supply, a policy which always appears unjustified when attention is directed only to the surplus cases.¹ It is in conflict with all experience to assume that the actual supply of land would be kept up to its efficiency if rent did not go to some personal agent who made himself responsible for the repairs, the restoration of fertility, and the waiting for the future involved in refraining from "Raubbau," the immediate exploitation of the land. (In some cases, it is true, this agent may be a group of men acting collectively through government, as in the case of any form of public ownership).

As Marshall says: "The greater part of the soil in old countries . . . has in it a large element of capital. Man can turn a barren into a very fertile soil."² To deny first that the supply of land either as extension or fertility has any marginal relation to sacrifice, or is within man's control, and then when this is shown to be an error, to assert that such land is not land, but capital, and that the income from it is not rent, but interest—this is the approved mode of showing the exceptional character of rent. Are the terms land and rent thus to be refined away from any relation to the real

¹ This applies also in answer to the remarks of Professor Ely.

² Marshall, *Principles of economics*, 4th edition, p. 224. He does not draw the conclusion, however, that is here suggested as necessary.

things about which the economist begins to reason, and of which the practical world thinks whenever those terms are used? ¹

Professor Taylor admits that my thesis is valid when confined to static conditions, but he adheres to "the relation-to-cost" concept in discussing dynamic conditions.² In his very suggestive remarks he has not revealed his thought fully enough to make clear the ground of his reasoning, but it would appear to be essentially the one just examined. While Taylor and Carver differ in some points, they agree in others, both alike rejecting the static reasoning on which Hollander bases his conclusion.

Dr. MacFarlane also holds a relation-to-cost concept of rent, but most of his discussion is given to a negative criticism of my position. His own views, though known to many readers, were not developed in this symposium. Some points will be noted below.

The attacks on my positive proposals refer in part to their supposed implications and consequences, in part to the advisability of the terms suggested.

1. Professor Taylor objects³ that the first of the three stages in the analysis of value is not fundamental and precedent to the others, but is co-extensive with them. This criticism probably proceeds from a misunderstanding of the briefly expressed proposition. Not all goods, but only *immediately enjoyable* goods were said to present the first problem in the analysis of value. The second problem, that of the value of usufructs, and the third,

¹ The interesting facts cited by Professor LeRossignol, p. 224, seem to me to illustrate, not to disprove, the view I have taken, which is far from a denial of the "surplus return" to the investor in land, or in other wealth, in a new country.

² See Taylor, p. 221.

³ See Taylor, p. 218.

that of the value of future uses, are, as my critic suggests, but developed phases of the general problem of value.

2. Professor Taylor believes that in criticizing Marshall's attempt to trace a continuity between rent and interest, I have denied the validity of reasoning by continuities.¹ It is not to a true continuity concept that I object, but to a pseudo-continuity concept. As the thought passes along the series from rent as an income yielded by one kind of concrete goods, to interest as the income yielded by another kind, there is unconsciously introduced a new contrast. The value expression of capital and the percentage expression of interest are equally applicable to the rent end of the series, and it is an error to assume that they are applicable only at the other end. My suggestion is to apply consistently each distinction in turn.

3. Dr. MacFarlane declares² that the outcome of my proposal is the obliteration of all distinctions between rent, interest, profit and wages. This conclusion, drawn from my statement that "interest may appear in connection with any gratification," is due to the failure to apprehend how and how far the proposed conception differs from the one apparently taken in this discussion³ by the critic himself, that each kind of income corresponds to a particular kind of income bearer. The proposal is to look upon interest in all cases (as it is now in many cases) as being that particular phase of value connected with differences in the time of accrual of incomes. Recognizing that a day's work to-day is worth more

¹ See Taylor, p. 220.

² See p. 215.

³ As is well known to students of economic theory Dr. MacFarlane has in his work "Value and distribution," obliterated the distinctions between the objective classes of agents yielding rents, and other incomes, more fully than has any other writer.

than one next year, does not identify interest and wages. Wages payable at different points of time vary in value as do rents at different points of time, and the comparison of each series is expressed by the interest rate.

4. Dr. MacFarlane objects¹ further that the proposed view of capital identifies the capitalized value of monopoly surplus with capital in general. True it does; there is no other logical way.² It is not quite clear what monopoly means as the critic uses the term, but any source of income that is continuing and foreseeable can be capitalized and sold, and thus becomes homogeneous with the value of the continued control of other sources of income. When from any cause income ceases, the capitalization collapses, monopoly or no monopoly. The puzzle as to whether the \$5,000 or the \$12,000 are to be called interest, is merely a confusion of the problems of economic income and contract interest.

5. Dr. MacFarlane says³ that I have tried to identify land and capital by a mere arithmetic device that does not touch the substantial differences. I would reply that because an arithmetic device has been inconsistently applied in the traditional theory, illusive contrasts not existing objectively, have been created. I dissent from Professor Carver's opinion that it is merely a question of terminology in dispute,⁴ and I agree with Dr. MacFarlane that there is involved more than a question of definition.⁵ The arithmetic device is significant at least in a negative criticism of the supposed contrast between rent as a differential and interest as a homogeneous income; it serves to show the fallacy in the old view as to the spe-

¹ See pp. 213-14.

² See Professor Gidding's reply, p. 226.

³ See p. 212.

⁴ See p. 203-4.

⁵ See p. 214.

cial relation of rent to entrepreneur's cost of production ; and it sets in a clear light the error in the traditional contrast between the value expression of "capital" and the concrete expression of land. This proof of the substantial unity and continuity of the body of income yielding wealth has been suggestively styled by Professor Taylor¹ in a phrase drawn from chemistry, "allotropism." One group of elements has been mistaken under differing conditions for two elements, (the condition in this case being the subjective attitude of the thinker). Take away the fallacious contrast, apply the arithmetic device consistently, and the objective classes of "natural agents" and "capital goods" are seen to be merged into one body of wealth, presenting three value aspects : gratifications, usufructs, expectations. But identifying the substance does not identify the allotropic states ; coal is not diamond, though both are allotropic states of carbon ; and no more is rent the same as interest. Like most analogies, however, this one is not perfect, and may become misleading. But this has brought us to another question deserving special answer.

6. It is taken for granted that my proposition is to treat rent and interest as identical. Several of the speakers have assumed that the idea of the paper was that of John B. Clark, and thereupon they have criticized his views, not mine. My indebtedness (shared in common with all contemporary students) to the inspiration of this ablest of theoretical economists, should not impose on him any responsibility for the theory of distribution here presented. The prepossessions of some of the speakers make it difficult for them to see the full import of a denial of the parallelism between the two incomes, rent and interest on the one hand, and the two objective

¹ See p. 219.

classes of goods, land and capital on the other. They therefore attribute to me conclusions deduced from premises of their own supplying. This is seen in the assumption that a denial of the conventional contrasts between valuable natural agents and (conventional) capital is a denial of the difference between rent and interest. It is consistent with my view to speak, as Professor Daniels does, of the identification (or merging), of the classes of wealth composing "land and capital" (in the conventional sense); but this is not an identification, as others consider it to be, of rent and interest. Having made this point as clear as I could in the limited space allotted, I can merely re-assert that this lack of parallelism is of the very essence of the contention in the opening paper.

7. Finally, it is said¹ that if the old concepts are to be rejected, it is better to devise new terms than to adapt old ones having misleading associations. To this view must be conceded a large measure of validity. Regarding the term rent there is less difficulty, as the broad meaning here suggested not only has strong historical support, but in many languages, including our own, is grounded so deeply in popular usage that no economic authority has been able to uproot it. There is needed only an elimination of inconsistent thoughts from the concept and the retention of one of the ideas that always has been present in it. Regarding interest the decision is more difficult. Only yesterday economists talked of "the theory of profits" when they meant what is now called "the theory of interest." The term interest, until recently, was used almost if not quite exclusively, as meaning the income from a money loan. This is a contractual, not an economic income, and as

¹ Hollander, p. 209.

such is not a genus coördinate with economic rent, rather it is species of the genus contractual rent. Is it not significant that even in the classical treatment interest as an accruing or realized income expressed as a percentage never appears except as the result of a contract?

The essence of the so-called problem of interest, according to the view in the opening paper is not fundamentally contractual interest, but capitalization. The problem logically following that of rent is not that of analyzing a coördinate income, for rent absorbs all the incomes accruing from material agents at any moment of time; but it is that of the value-calculation on future incomes. The title of the opening paper might perhaps better be: "The relations between rent and capitalization." That, however, would have misled the reader approaching it with the older conceptions in mind. Either "the theory of discount" or "the theory of capitalization" would be a more appropriate term for this part of the problem than is the theory of interest, and possibly some still better term can be found. The final use of terms is a matter of social convention; but when the real nature of the problem is understood, and then the fitting terms are suggested, they will not long fail of acceptance, as the example of the rapid change in the usage of the word profits gives reason to hope.

Whatever other impression may be left by this discussion I trust it will not be that I have contended for a merely verbal change. On the contrary I have outlined, whatever be its defects, a radically new conception of the whole theoretical analysis of distribution. Doubtless this session has been most profitably spent in considering the more negative phases of the subject; but

the scant attention that has been given to the yet more important positive outcome of the study may leave an impression of negation and verbal criticism that is misleading.

I welcome the able, forcible and somewhat unexpected support that has been given to my thesis in this discussion by the advocates of a realistic theory.¹ Opinion on this subject is unquestionably in process of change. Even the more conservative speakers in this session have made concessions that would have been startling a few years ago. The immediate result of such a friendly interchange of views as this has been, may be to strengthen each in his own opinion; but in the end the result must be to help us all towards the right solution of these difficult and important problems in the realm of abstract economic theory.

¹ Daniels, Giddings, Marburg, Whitaker. Unfortunately no report was secured of Mr. Marburg's brief and pointed remarks or of Dr. Whitaker's subtle discussion. Professor Keasbey's attitude toward the question is favorable to the opening paper as against its critics, but his point of view is original, and his treatment in several ways not consistent with the views I have expressed.